

The complaint

Mr M complains that Bank of Scotland plc (trading as Birmingham Midshires Mortgages) didn't agree to move his interest only mortgage onto capital repayment terms. He says he's missed out on four years of making capital repayments at a lower interest rate.

Mr M says Birmingham Midshires should adjust his mortgage as if he'd been on capital repayment terms since 2020.

What happened

Mr M has had an interest only mortgage with Birmingham Midshires since 2007. He says he asked to move onto capital repayment terms several times, including in 2020. Mr M says he was told this wasn't possible because Birmingham Midshires doesn't offer residential mortgages on a repayment basis.

Birmingham Midshires says it told Mr M that in order to proceed with a change to the repayment method he'd need to speak to one of its mortgage advisers. It provided a number for him to call. Birmingham Midshires says Mr M didn't complete an application with a mortgage adviser. It also said it couldn't move Mr M onto capital repayment terms while his mortgage is in arrears.

Our investigator said Birmingham Midshires had been fair. She said Mr M's monthly payments would increase if the mortgage was on a repayment basis, potentially putting strain on his finances. While Mr M had made overpayments these were used to make up missed payments.

Mr M didn't agree. He said Birmingham Midshires' letter said it doesn't offer repayment mortgages and said nothing about arrears. He said the phone number in the letter from Birmingham Midshires is for a different business.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Birmingham Midshires says Mr M asked about changing to a repayment method in 2016, 2018 and 2020. It says it told him he'd need to speak to one of its mortgage advisers about this. Its account notes support this.

Mr M called Birmingham Midshires in 2016 to discuss further borrowing on a full repayment basis. Birmingham Midshires' notes say it told Mr M he'd need to speak to an adviser.

Mr M called Birmingham Midshires in 2018. He said his accounts (he also had a buy to let mortgage with Birmingham Midshires) were in arrears, which he intended to clear. He said he was self-employed and had cash flow problems.

Mr M also asked at this time about moving his residential mortgage onto part interest only and part repayment. Birmingham Midshires said he'd need to speak to a mortgage adviser. It

told Mr M he'd need to provide evidence of two years' income as well as information about expenditure and credit commitments for it to check affordability and the mortgage would change from Birmingham Midshires to Bank of Scotland. It said it would cover any costs involved. Mr M gave a value for the property which suggested he was in negative equity. This meant the available products had a higher interest rate than the standard variable rate. It appears Mr M didn't continue with the application to change the repayment method.

Mr M contacted Birmingham Midshires in February 2020. He wanted to clear his arrears and move to part repayment and part interest only. Birmingham Midshires provided a copy of the letter it sent to Mr M in February 2020. This said it could only consider a change to a repayment method if he had a mortgage review with one of its qualified mortgage advisers. The letter gave a number for Mr M to call to do this or if he had any questions.

Birmingham Midshires says it has no record of Mr M calling this number and speaking to a mortgage adviser. It says it checked the number given to Mr M and this remains correct.

Birmingham Midshires says there were no further calls to review the repayment status after this and the mortgage went into arrears again.

Birmingham Midshires says it didn't decline a request to move Mr M's mortgage onto repayment terms – Mr M didn't complete an application with a mortgage adviser. When Mr M raised a complaint, Birmingham Midshires said it wouldn't be able to convert the mortgage onto a repayment basis while it was in arrears (which the evidence suggests was the case at that time).

Did Birmingham Midshires make an error?

Mr M has considered moving all or part of his mortgage onto repayment terms and discussed this with Birmingham Midshires on several occasions. I don't think the fact that he hasn't done so is due to an error by Birmingham Midshires.

Birmingham Midshires doesn't offer new residential mortgages. But it can offer existing customers new products or a re-mortgage process with Bank of Scotland.

I don't think it was wrong or unfair for Birmingham Midshires to say Mr M had to speak to a mortgage adviser about changing the repayment method. Rules on mortgage regulation require it to assess affordability before agreeing to vary the terms of a mortgage – which would include changing the repayment method. Birmingham Midshires' process for this includes an appointment with a mortgage adviser.

Birmingham Midshires says Mr M didn't complete an application. I can't fairly find that it should have changed the repayment method for Mr M's mortgage without following its usual process to check that this was affordable for Mr M.

It's possible that when Mr M called the number in the letter he received in 2020 he reached an adviser with Bank of Scotland or another lender in the group. Birmingham Midshires had previously told Mr M that after a change to the repayment method the mortgage would be with Bank of Scotland. If Mr M wasn't sure that the number was right or had trouble getting through, he could have called Birmingham Midshires again to check. I don't think any confusion this might have caused makes it fair and reasonable to require Birmingham Midshires to re-work Mr M's mortgage or pay compensation.

Mr M's mortgage was in arrears when he contacted Birmingham Midshires in 2018 and when he contacted it in 2020. Mr M had payments reversed in November and December 2019 and in January and February 2020. It's difficult now to know what decision would have

been made if Mr M had completed an application. But given Mr M's recent arrears I can't fairly find that Birmingham Midshires would have assessed a full or part change to repayment terms as affordable.

Although Mr M cleared his arrears in February 2020, he asked for a payment deferral from March 2020 – most likely his income was affected by the Covid-19 pandemic and National lockdown. After this, Mr M sometimes made overpayments and he sometimes missed payments. Since 2021 Birmingham Midshires has allowed overpayments to be applied when payments are missed. Nonetheless, Mr M's mortgage has at times been in arrears. It's not at all clear that he'd have been able to maintain the higher monthly payments if he'd moved onto repayment terms for all or part of his mortgage. It's unlikely Mr M would have been better off if he'd changed the repayment method and then couldn't maintain the higher monthly payments.

I understand why Mr M wants to change the repayment method. He'd have the security of knowing his mortgage (or part of it) will be repaid by the end of the term. And if he reduces the capital the overall amount of interest applied will be reduced. But this change would require an affordability assessment and result in higher monthly payments.

Mr M didn't complete an application to change the repayment method, which would have included an affordability assessment with a mortgage adviser. As I said, it's not clear that Birmingham Midshires would have assessed a change to the repayment method as affordable even if he had, or that Mr M would have been able to maintain higher monthly payments.

Taking all of this into account, I don't think it's fair and reasonable to require Birmingham Midshires to re-work Mr M's account as if he'd switched to a repayment method for all or part of his mortgage in 2020 (or earlier). I don't think it's fair and reasonable to require it to pay compensation.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 9 September 2024.

Ruth Stevenson
Ombudsman